



JOHN CHIANG  
California State Controller

May 28, 2014

Shelly Scott, President  
Board of Education  
Novato Unified School District  
1015 7<sup>th</sup> Street  
Novato, CA 94945

Dear Ms. Scott:

The State Controller's Office reviewed the costs claimed by Novato Unified School District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2008, through June 30, 2011. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to ensuring that direct and indirect costs were properly reported in accordance with program requirements.

The district claimed \$111,728 for the mandated program. Our review found that \$67,426 is allowable and \$44,302 is unallowable. The costs are unallowable because the district did not offset its Winton Act base-year costs against its current-year Rodda Act direct costs for the review period, did not claim indirect costs on contract services for FY 2008-09 and FY 2009-10, and made a mathematical error on its FY 2008-09 claim when applying the indirect cost rate to salaries and benefits, as described in the attached Summary of Program Costs, and Finding and Recommendation.

For the fiscal year (FY) 2008-09 claim, the State paid the district \$4,547. Our review found that \$20,021 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$15,474, contingent upon available appropriations.

For the FY 2009-10 claim, the State paid the district \$4,261. Our review found that \$37,248 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$32,987, contingent upon available appropriations.

For the FY 2010-11 claim, the State made no payment to the district. Our review found that \$10,157 is allowable. The State will pay that amount, contingent upon available appropriations.

We informed Karen Maloney, Chief Financial Officer, of the review adjustment via email on February 28, 2014. We did not receive a response from the district.

If you disagree with the review findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by phone at (916) 323-5849.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/mh

Attachments

RE: S14-MCC-936

cc: Karen Maloney, Chief Financial Officer  
Novato Unified School District  
Kate Lane, Senior Director  
Business Services  
Marin County Office of Education  
Peter Foggato, Director  
School Fiscal Services Division  
California Department of Education  
Carol Bingham, Senior Fiscal Policy Advisor  
Government Affairs Division  
California Department of Education  
Thomas Todd, Assistant Program Budget Manager  
Education Systems Unit, California Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

# Attachment 1— Summary of Program Costs July 1, 2008, through June 30, 2011

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment	Reference <sup>1</sup>
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 22,327	\$ 22,327	\$ —	
Contract services	6,016	6,016	—	
Subtotal	28,343	28,343	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(16,516)	(16,516)	Finding 1
Increased direct costs, G1 through G3	28,343	11,827	(16,516)	
Component activities G4 through G7:				
Salaries and benefits	6,612	6,612	—	
Contract services	545	545	—	
Increased direct costs, G4 through G7	7,157	7,157	—	
Total increased direct costs, G1 through G7	35,500	18,984	(16,516)	
Indirect costs	1,222	1,037	(185)	Finding 2
Total program costs	<u>\$ 36,722</u>	20,021	<u>\$ (16,701)</u>	
Less amount paid by the State		(4,547)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 15,474</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 28,196	\$ 28,196	\$ —	
Contract services	5,868	5,868	—	
Subtotal	34,064	34,064	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(16,698)	(16,698)	Finding 1
Increased direct costs, G1 through G3	34,064	17,366	(16,698)	
Component activities G4 through G7:				
Salaries and benefits	15,434	15,434	—	
Contract services	2,383	2,383	—	
Increased direct costs, G4 through G7	17,817	17,817	—	
Total increased direct costs, G1 through G7	51,881	35,183	(16,698)	
Indirect costs	2,561	2,065	(496)	Finding 2
Total program costs	<u>\$ 54,442</u>	37,248	<u>\$ (17,194)</u>	
Less amount paid by the State		(4,261)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 32,987</u>		

**Attachment 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment	Reference <sup>1</sup>
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 6,005	\$ 6,005	\$ —	
Contract services	3,769	3,769	—	
Subtotal	9,774	9,774	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(17,090)	(17,090)	Finding 1
Subtotal	9,774	(7,316)	(17,090)	
Adjustment to eliminate negative balance	—	7,316	7,316	
Increased direct costs, G1 through G3	9,774	—	(9,774)	
Component activities G4 through G7:				
Salaries and benefits	4,449	4,449	—	
Contract services	5,090	5,090	—	
Increased direct costs, G4 through G7	9,539	9,539	—	
Total increased direct costs, G1 through G7	19,313	9,539	(9,774)	
Indirect costs	1,251	618	(633)	Finding 2
Total program costs	<u>\$ 20,564</u>	10,157	<u>\$ (10,407)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 10,157</u>		
<u>Summary: July 1, 2008, through June 30, 2011</u>				
Total increased direct costs, G1 through G7	\$ 106,694	\$ 63,706	\$ (42,988)	
Indirect costs	5,034	3,720	(1,314)	
Total program costs	<u>\$ 111,728</u>	67,426	<u>\$ (44,302)</u>	
Less amount paid by the State		(8,808)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 58,618</u>		

<sup>1</sup> See Attachment 2, Finding and Recommendation.

## Attachment 2— Findings and Recommendations July 1, 2008, through June 30, 2011

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### Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives related to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [CSM]) determined that the Rodda Act imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Chapter 1213, Statutes of 1991, added Government Code section 3547.5; this section requires school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding. On August 20, 1998, the CSM determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Claimants are allowed to claim increased costs. For components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year [FY] 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The seven components are as follows:

- G1—Determining bargaining units and exclusive representatives
- G2—Election of unit representatives
- G3—Costs of negotiations
- G4—Impasse proceedings
- G5—Collective bargaining agreement disclosure
- G6—Contract administration
- G7—Unfair labor practice costs

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The CSM adopted the parameters and guidelines on October 22, 1980, and amended them ten times, most recently on January 29, 2010.

In compliance with Government Code section 17558, the State Controller's Office issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

The current findings are the result of our review of the mandated cost claims filed for the legislatively mandated Collective Bargaining Program for the period of July 1, 2008, through June 30, 2011.

**FINDING 1—  
Unreported Winton Act  
base-year direct costs  
and related indirect  
costs**

The district did not report any Winton Act direct costs on its mandated cost claims for review period. Specifically, the district did not offset the Winton Act base-year costs against the current-year Rodda Act costs for cost components G1 through G3, thereby understating the Winton Act base-year costs by \$50,304.

The following table summarizes the unreported Winton Act base-year cost adjustment by fiscal year:

Winton Act Base Year Costs	Fiscal Year			Total
	2008-09	2009-10	2010-11	
Winton Act base-year costs, FY 1995-96	\$ (3,729)	\$ (3,729)	\$ (3,729)	
Implicit price deflator (IPD)	x 4.429	x 4.478	x 4.583	
Winton Act base-year costs adjusted by the IPD	(16,516)	(16,698)	(17,090)	(50,304)
Less reported Winton Act base-year costs	-	-	-	-
Review adjustment	<u>(16,516)</u>	<u>(16,698)</u>	<u>(17,090)</u>	<u>(50,304)</u>

The parameters and guidelines (Section H – Supporting Data for Claims – Report Format for Submission of Claim) state:

- a. For component activities G1, G2, and G3:
  1. Determination of the “increased costs” for each of these three components requires the costs of current year Rodda Act activities to be offset [reduced] by the cost of the base-year Winton Act activities. The Winton Act base-year is generally fiscal year 1974-75.

Winton Act base-year costs are adjusted by the Implicit Price Deflator prior to offset against the current year Rodda Act costs for these three components. The Implicit Price Deflator shall be listed in the annual claiming instructions of the State Controller.

The Winton Act base-year costs were obtained from the FY 1995-96 claim the district submitted to the SCO’s Division of Accounting and Reporting. The implicit price deflator is reported in the SCO’s annual claiming instructions.

**Recommendation**

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that all Winton Act base-year costs are adjusted by the IPD, as listed in the SCO’s annual claiming instructions, and are properly offset against the district’s current-year Rodda Act costs claimed.

**FINDING 2—  
Misstated indirect costs**

The district overstated indirect costs by \$1,314 for the review period. The overstatement occurred because the district:

- Did not offset its Winton Act base-year costs against its current-year Rodda Act direct costs for the review period, resulting in overstated indirect costs of \$2,514 (see Finding 1);
- Did not claim indirect costs on contract services for FY 2008-09 and FY 2009-10 totaling \$842; and
- Made a mathematical error on its FY 2008-09 claim when applying the indirect cost rate to salaries and benefits, resulting in understated indirect costs of \$358.

The unclaimed indirect costs on contract services occurred because the district followed the claiming instructions identified on the Collective Bargaining Program's Form 1, which inadvertently excluded contract services from the calculation of indirect costs. The Collective Bargaining Program's claiming instructions have since been corrected.

We determined allowable indirect costs by multiplying allowable increased direct costs by the indirect cost rates claimed by the district. The indirect cost rates claimed by the district agreed with the rates approved by the California Department of Education (CDE).

The parameters and guidelines allow indirect cost rates provisionally approved by the CDE. The CDE indirect cost rates apply to total increased direct costs (salaries and benefits, materials and supplies, and contract services).

The following table summarizes the calculation of unclaimed indirect costs for the review period:

Description	Fiscal Year			Total
	2008-09	2009-10	2010-11	
Allowable increased direct costs	\$ 18,984	\$ 35,183	\$ 9,539	
Allowable indirect cost rate	5.46%	5.87%	6.48%	
Allowable indirect costs	\$ 1,037	\$ 2,065	\$ 618	\$ 3,720
Less: claimed indirect costs	1,222	2,561	1,251	5,034
Review adjustment	\$ (185)	\$ (496)	(633)	\$ (1,314)

**Recommendation**

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district follow the updated guidance in the claiming instructions for calculating indirect costs on contract services.